

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Communications Division

RESOLUTION T-17483

Carrier Oversight and Programs Branch

October 1, 2015

R E S O L U T I O N

Resolution T-17483 - Approval of the California High Cost Fund-B Administrative Committee Budget for Fiscal Year 2016-17 (July 1, 2016 through June 30, 2017) to Comply with the Requirements of Public Utilities Code Section 273(a).

Summary

This Resolution adopts Fiscal Year (FY) 2016-17 budget of \$20,580,237 for the California High Cost Fund-B (CHCF-B or B Fund) program.

Background

The CHCF-B program was established in 1996 pursuant to Public Utilities (PU) Code § 739.3. Section 739.3 requires the California Public Utilities Commission (Commission) to implement and maintain a program for universal telephone service support to reduce rate disparity in high cost areas. The program provides subsidies to carriers of last resort (COLRs) for providing basic local telephone service to residential customers in high-cost areas.

The companies eligible to receive support include AT&T California, Verizon of California (Verizon), Frontier Communications of California (Frontier), Cox California Telecom (Cox), and other carriers that become COLRs serving high cost areas. The CHCF-B program is funded by a surcharge assessed on revenues collected from end-users for intrastate telecommunications services subject to surcharge. The current CHCF-B program surcharge rate is 0.00%.¹ The CHCF-B has sufficient program reserve to cover current and future program expenses.

PU Code §§ 270-281 were enacted in October 1999. Section 270(b) requires that the money in the CHCF-B be expended only for program purposes.

¹ Resolution T-17417

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In June 2006, the Commission, on its own motion, opened Rulemaking (R.)06-06-028 to perform a comprehensive review of the CHCF-B program. In September 2007, the Commission issued an interim decision (D.) 07-09-020 and adopted major reforms to the program to reduce the size of the CHCF-B Fund and to better target the support to cover only those “high cost” areas where funding is necessary to meet universal service goals. Specifically, in D.07-09-020, the Commission ordered the following changes:

- Increased the benchmark for the CHCF-B subsidy from \$20.30 per line served in a census block group (CBG) to \$36.00; and
- Changed the method of calculation of the subsidy payment from the difference between cost and revenue, to the difference between cost and the benchmark level of \$36.00, per line served in a CBG.

In June 2009, the Commission opened a successor proceeding, R. 09-06-019, to consider further modifications of the CHCF-B program. On December 20, 2012, the Commission issued D.12-12-038 which revised the definition and elements for residential basic telephone service. The new basic service elements are technology-neutral. The Commission also ordered costs to be updated for the B Fund’s CBGs based on 2010 census data, and developed a methodology to assign the cost of service to CBGs in newly assigned CHCF-B eligible areas. On June 12, 2014, the Commission adopted D.14-06-008 which approved a plan to update costs for CHCF-B Fund areas using 2010 census data.

In November 2014, the Commission adopted the CHCF-B program budget of \$20,001,737 for FY 2015-16 in Resolution T-17446, which included the following components: State Operations, \$1,441,500; Local Assistance, \$18,806,000; FI\$Cal, \$24,000; and State Controller’s Office, \$237.

Discussion

In this Resolution, the Communications Division (CD) proposes a CHCF-B program budget of \$20,580,237 for FY 2016-17. This proposed budget reflects the benchmark threshold changes adopted in D.07-09-020, and historic trend analysis and estimates for carrier claims for FY 2016-17 (which is the sole component for Local Assistance), and estimates for State Operations, FI\$Cal, and State Controller’s Office expenses.

STATE OPERATIONS (Appendix A, line 1)

State Operations expenditures for the CHCF-B program consist of the following:

- Direct Program Staff Costs and Benefits
- Audit Personnel Billing to Program Costs

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- Prorata Costs (Interagency Fees)
- Auditing Contract Costs
- IT Automation
- Contracted Program Administration Costs

After Resolution T-17446 adopted program expenses for FY 2015-16, the State enacted the 2015 program budget on June 24, 2015 providing \$1,750,000 for State Operations. CD's expense forecast for FY 2016-17 is similar to the expense projected for FY 2015-16. Therefore, CD recommends \$1,750,000 in State Operations for FY 2016-17. Estimated State Operations expenditures for FY 2014-15 totaled \$660.806.² While the actual expenditure level for FY 2014-15 was less than the appropriated amount, we propose to maintain the FY 2016-17 State Operations budget at the FY 2015-16 Enacted State Budget level that was provided in the 2015 Budget Act. Maintaining the State Operations budget at this level will provide for an expected upward trend in expenses associated with, for instance, additional costs assumed in implementing legislation requiring a change in public purpose program surcharge collection policy and related programming costs, which would fall under the various expenditure components itemized above. Accordingly, CD recommends that the Commission adopt an equivalent State Operations estimate of \$1,750,000 for FY 2016-17, equal to only 8.5% of the total CHCF-B budget.

LOCAL ASSISTANCE (Appendix A, line 2)

Local Assistance consists of carrier claims for reimbursements from the CHCF-B Fund. Carriers' forecast for FY 2016-17 claims are approximately \$18.806 million.

To evaluate the carriers' forecast (See Table 1 below), CD compared \$18.806 million forecast with the carriers' FY 2014-15 total annualized claim amount of \$17.469 million. While performing this analysis, CD staff also found that the enacted state budget approved funding of \$20.777 million for Local Assistance. In comparing the carriers' FY 2014-15 Local Assistance claims of \$17.469 million against the FY 2016-17 claims forecast of \$18.806 million, staff also considered the FY 2015-16 enacted budget of \$20.777 million. CD staff recommends that the carriers' projected claims of \$18.806 million for FY 2016-17 be approved, as AT&T's draw from the Fund may increase marginally in FY 2016-17 compared to 2014-15 Local Assistance claims due to current remapping efforts, which are likely to increase the number of company's subsidized lines. Based on the CHCF-B carriers' submitted data, CD staff feels that the \$18.806 million forecast has merit as it remains within the FY 15-16 enacted state budget for the CHCF-B program. Accordingly, given expenditures that are known and predictable, CD recommends \$18.806 million in local assistance for FY 2016-17.

² Estimated State Operations expenditures for FY 2014-15 are the sum of: Personal Services \$189,880; Operations \$195,932; ProRata/SWCAP \$26,756; and Cost Allocation \$248,239. Total \$660,806.

Table 1

Comparison of B Fund FY 2014-15 Claims Paid, FY 2016-17 Carrier Estimates and FY 2015-16 Adopted Claim Amounts in Millions

(a) FY 2014-15 Annualized Claims Paid	(b) Carriers' FY 2016-17 estimated claims amount	(c) FY 2015-16 Enacted Budget	(d) <u>Proposed Local Assistance for FY 2016-17</u>
\$17.469	\$18.806	\$20.777	\$18.806 million

FI\$CaL (Appendix A, line 3)

The Financial Information System for California (FI\$Cal) line item is based on the appropriations recommended in the FY 2015-16 Enacted Budget of \$24,000. Fi\$Cal is an information technology project managed by a partnership of Department of Finance, the State Treasurer's Office, the State Controller's Office, and the Department of General Services. The purpose of this project is to create and implement a new statewide financial system.

STATE CONTROLLER'S OFFICE (SCO) (Appendix A, line 4)

The State Controller's Office line item is based on the appropriations recommended in the FY 2015-16 Enacted Budget of \$237 for services rendered by the Controller's Office.

Other CHCF-B Program Issues

Cost Allocation

The CPUC's cost allocation plan directs how administrative charges are allocated to the sixteen special funds the agency administers, as well as overhead charged to grants. Cost allocation expenditures (sometimes referred to as indirect charges, or overhead) include Administrative Services salaries and operating expenses (CPUC Accounting and Budget Offices, Business Services, Contracts, Human Resources and Information Technology), facilities operations (rent, security and utility expenses), as well as Executive Division, Administrative Law Judge, and a portion of shared, legal expenses. The cost allocation methodology allocates to funds primarily on a Personnel Year basis; funds that support more staff absorb proportionally more CPUC overhead costs.

CPUC Staff Costs

CPUC staff costs directly associated with the administration of the CHCF-B program (includes salaries and benefits): The amount budgeted for this item is based on the number of positions that are directly charged to the CHCF-B Fund.

Audits

Audit expenses are intended to allow for a greater number of carrier audits to examine claims and surcharge remittances in accordance with PU Code § 274.

Program Claim Automation

The Administrative Services Division and CD are developing a new automated claims system for public purpose programs including the CHCF-B. This new program is intended to bring greater efficiency to universal service programs.

Administrative Committee Costs

The Administrative Committee costs are for the Administrative Committee members travel expenses which include in-state airfare, hotel, per diem, gas, meals, etc. for the purposes of Administrative Committee meetings.

Inter-Agency Costs

The Inter-agency fee budget includes costs charged to the CHCF-B Fund for services rendered by other State agencies.

CHCF-B Administrative Committee

On July 23, 2015, in compliance with Paragraph 4.a.1 of the CHCF-B Administrative Committee (AC) Charter, the CHCF-B AC discussed preliminary details of the FY 2016-17 budget, but complete data were not available to facilitate a vote on a proposed budget.

Safety Issues

The CHCF-B carriers are required to adhere to all Commission rules, decisions, General Orders and statutes including PU Code § 451 to take all actions "...necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public." The CHCF-B fund provides carriers with financial support to provide safe, reliable and affordable telephone service to its customers in rural, high cost areas.

Reliable telephone service is crucial in these generally rural, high cost areas that are sometimes isolated. Program funding helps provide residents with access to 211 for essential community services, 311 for non-emergency municipal services, 511 for traffic and transportation information, 811 for public infrastructure underground location

information, and most importantly, the ability to dial 911 to reach police, fire and emergency medical responders when fire, natural disasters, medical emergencies, or when other crisis occur. The forecasted FY 2016-17 budget ensures that the CHCF-B program promotes universal service by subsidizing essential communications links in high cost, rural communities.

Conclusion

CD's forecasted costs for the FY 2016-17 budget are included in Appendix A and are summarized in Table 2 below:

Table 2

Program Categories	FY 2016-17 Proposed Budget
State Operation (8660)	\$1,750,000
Local Assistance (8660)	\$18,806,000
FI\$Cal (8880)	\$24,000
SCO (0840)	\$237
<u>Total Program Budget</u>	<u>\$20,580,237</u>

In this Resolution, we adopt the proposed CHCF-B budget of \$20,580,237 for FY 2016-17. Final appropriations for 8660 Public Utilities Commission (State Operations and Local Assistance), 8880 Financial Information System for California (FI\$Cal), and 0840 State Controller's Office (SCO) will be determined when the Budget Act of 2016 is approved by the Legislature and the Governor. The FY 2016-17 Budget will be subject to final appropriations adopted in the Budget Act of 2016. To the extent that appropriations adopted in the Budget Act of 2016 differ from the FY 2016-17 Budget adopted in this Resolution, the appropriations adopted in the Budget Act of 2016 will supersede the budget adopted in this Resolution.

Comments on the Proposed Resolution

In compliance with PU Code § 311 (g), the Commission e-mailed a Notice of Availability on September 1, 2015 to the CHCF-B claimants, the CHCF-B AC members and alternates, and to parties on the service list of R.09-06-019 informing these parties that the draft of this Resolution is available at the Commission's website <http://www.cpuc.ca.gov> for comment, as well as the availability of the conformed Resolution, if adopted by the Commission, on the same website. The Commission received no comments.

After issuing the draft Resolution, CD staff review found that for FY 2015-16, the enacted State Operations appropriation for the CHCF-B program is \$1,750,000, resulting from the annual end-of-year collaboration between the Commission's Fiscal office and the State's Department of Finance, to recognize salary and benefit adjustments to this appropriation for the upcoming fiscal year. The CHCF-B AC budget for FY 2015-16 adopted \$1,441,500 for State Operations. However, CD recommends adopting the higher State Operations amount of \$1,750,000 for this FY 2016-17 Resolution to reflect expectations of an upward trend in expenses as previously discussed in the State Operations section.

Additionally, CD staff found that the Local Assistance amount enacted for Fiscal Year 2015-16 is \$20.777 million. CD evaluated this higher amount and concludes that its methodology, as explained above in the Local Assistance Section, is an appropriate forecast and continues to project a Local Assistance amount of \$18.806 million for FY 2016-17. This Resolution has been updated throughout to reflect resulting figures.

Findings and Conclusions

1. The CHCF-B program was established in 1996 pursuant to PU Code § 739.3 to implement a program for universal service support to reduce rate disparity in high cost areas.
2. PU Code § 739.3 requires the Commission to implement and maintain a program for universal telephone service support to reduce rate disparity in high cost areas.
3. The CHCF-B program provides subsidies to COLRs for providing basic local telephone service to residential customers in high-cost areas.
4. PU Code §§ 270-281 were enacted in October 1999.
5. PU Code § 270(b) requires that the CHCF-B Administrative Committee (AC) Funds be used only for program purposes.
6. In September 2007, D.07-09-020 ordered CHCF-B program changes to increase the census block group subsidy benchmark/threshold from \$20.30 to \$36.00 per line served in a census block group through a series of steps, and the method of calculation for the subsidy payment from the difference between cost and revenue to the difference between cost and the benchmark/threshold level.
7. In June 2014, the Commission adopted D.14-06-008 which approved a plan to update costs for CHCF-B Fund area using 2010 census data.

8. On July 23, 2015, in compliance with Paragraph 4.a.1 of the CHCF-B AC Charter, the CHCF-B AC discussed preliminary details of the FY 2016-17 budget, but complete data were not available to facilitate vote on a proposed budget.
9. CD's proposed total FY 2016-17 budget of \$20,580,237, composed of \$18,806,000 for Local Assistance, \$1,750,000 for State Operations, \$24,000 for Financial Information System for California (FI\$Cal), and \$237 for State Controller's Office (SCO), is reasonable and should be adopted.
10. The FY 2016-17 budget will be subject to final appropriations adopted in the Budget Act of 2016 for 8660 Public Utilities Commission (State Operations and Local Assistance), 8880 Financial Information System for California (FI\$Cal), and 0840 State Controller's Office (SCO).
11. The appropriations adopted in the Budget Act of 2016 will supersede the FY 2016-17 Budget adopted in this Resolution.
12. In compliance with PU Code § 311(g), the Commission e-mailed a Notice of Availability on September 1, 2015 to the CHCF-B claimants, the CHCF-B AC members and alternates, and to parties on the service list of R.09-06-019 informing these parties that the draft of this Resolution is available at the Commission's website <http://www.cpuc.ca.gov> comment, as well as the availability of the conformed Resolution, if adopted by the Commission, on the same website.

THEREFORE, IT IS ORDERED that:

1. The budget for the California High Cost Fund-B Administrative Committee Fund for Fiscal Year 2016-17 in the amount of \$20,580,237, composed of \$18,806,000 for Local Assistance, \$1,750,000 for State Operations, \$24,000 for Financial Information System for California (FI\$Cal), and \$237 for State Controller's Office (SCO), and as shown in Appendix A, is adopted.
2. Communications Division staff is authorized to modify the FY 2016-17 budget to conform to the final appropriations adopted in the Budget Act of 2016 for 8660 Public Utilities Commission (State Operations and Local Assistance), 8880 Financial Information System for California (FI\$Cal), and 0840 State Controller's Office (SCO).

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 1, 2015.

TIMOTHY J. SULLIVAN
Executive Director

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Appendix

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APPENDIX A
CALIFORNIA HIGH COST FUND B ADMINISTRATIVE COMMITTEE FUND
PROGRAM BUDGET

Program Categories		FY 2015-16 Enacted Budget	FY 2016-17 Proposed Budget per Res. T- 17483	FY 2016-17 Proposed Adopted per Res. T- 17483
1	State Operations	\$1,750,000	\$1,750,000	\$1,750,000
2	Local Assistance	\$20,777,000	\$18,806,000	\$18,806,000
3	FI\$Cal	\$24,000	\$24,000	\$24,000
4	SCO	\$237	\$237	\$237
5	Total Program Budget	\$22,551,237	\$20,580,237	\$20,580,237

End of Appendix-A